Economic Value

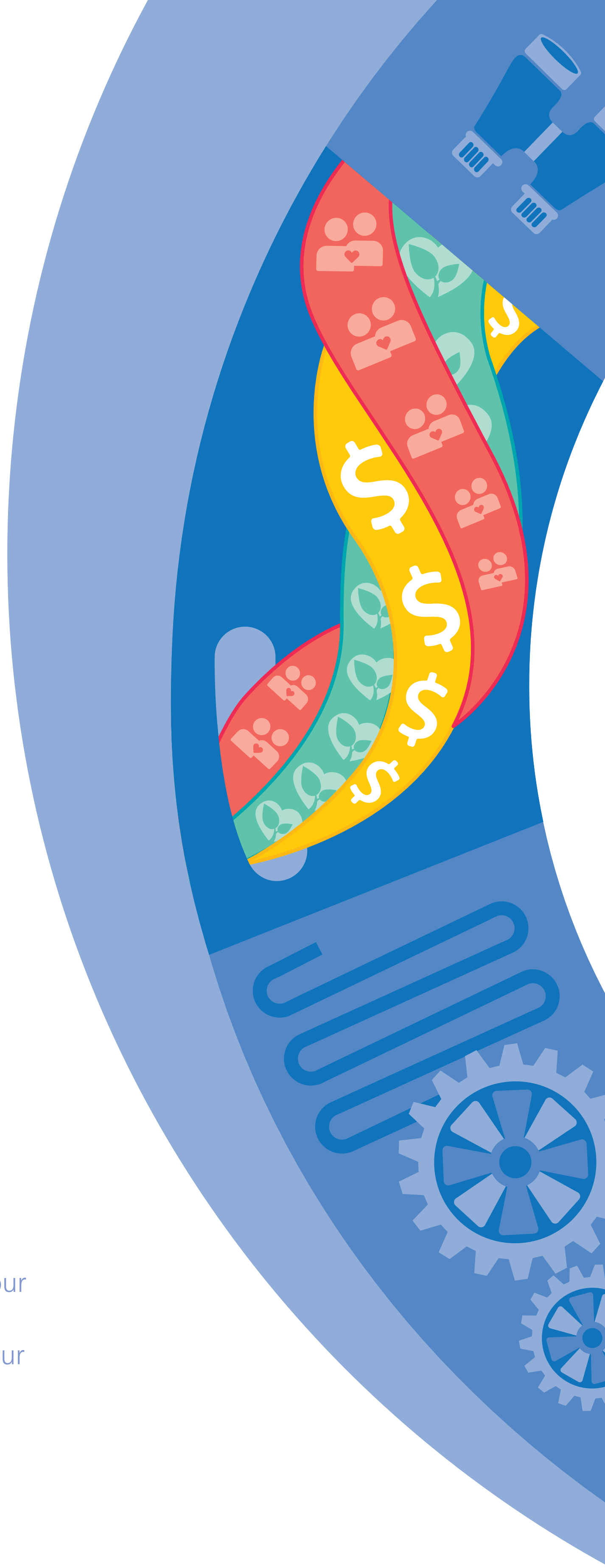
Good performance in the management and operation of our assets delivers economic value to our capital providers (shareholders and lenders).

58 Financial Review

Social Value

Environmental Value

The effective management and operation of our assets also delivers social and environmental value to all stakeholders. This is described in our Sustainability Report.



Financial Review

How can you approach our Financial Statements?

Financial Statements Decoded

The purpose of financial statements is to communicate the Group's financial information to its stakeholders, especially shareholders, investors and lenders. In this section we try to help those readers who do not have an accounting background to understand our financial information, by explaining the functions and relationships between three essential financial statements: the statement of comprehensive income, the statement of financial position and the statement of cash flows. For comprehensive and authoritative definitions and explanations, readers should turn to the relevant accounting standards, but we hope this section offers useful guidance.

Statement of comprehensive income

"Financial performance measured by recording the flow of resources over a period of time"

The statement of comprehensive income comprises (a) profit or loss in the same way as the previous years and (b) other comprehensive income ("OCI") which represents changes in net assets / equity not arising from transactions with owners (i.e. shareholders). An example of OCI in CLP is the exchange gain arising from the translation of our Australia and India businesses in 2009 which increased our net assets in these two regions. Transactions with owners such as dividends are presented in the statement of changes in equity. The statement of comprehensive income is further analysed on pages 66 and 67.

Statement of financial position

"A snapshot, taken at a point in time, of all the assets the company owns and all the claims against those assets"

The statement of financial position sums up the Group's economic resources (non-current assets and working capital), obligations (debts and other non-current liabilities) and owners' equity at a particular point of time, in this case, our year end at 31 December 2009. It also shows how the economic resources contributed by lenders and shareholders are used in the business. In the past, we used to call this statement a "balance sheet" because at any given time, assets must equal liabilities plus owners' equity (in other words, be in balance). The new name reflects its function more accurately. Further analysis of this statement is set out on pages 68 to 71.

Statement of cash flows

"Where the company gets its cash and how it spends it"

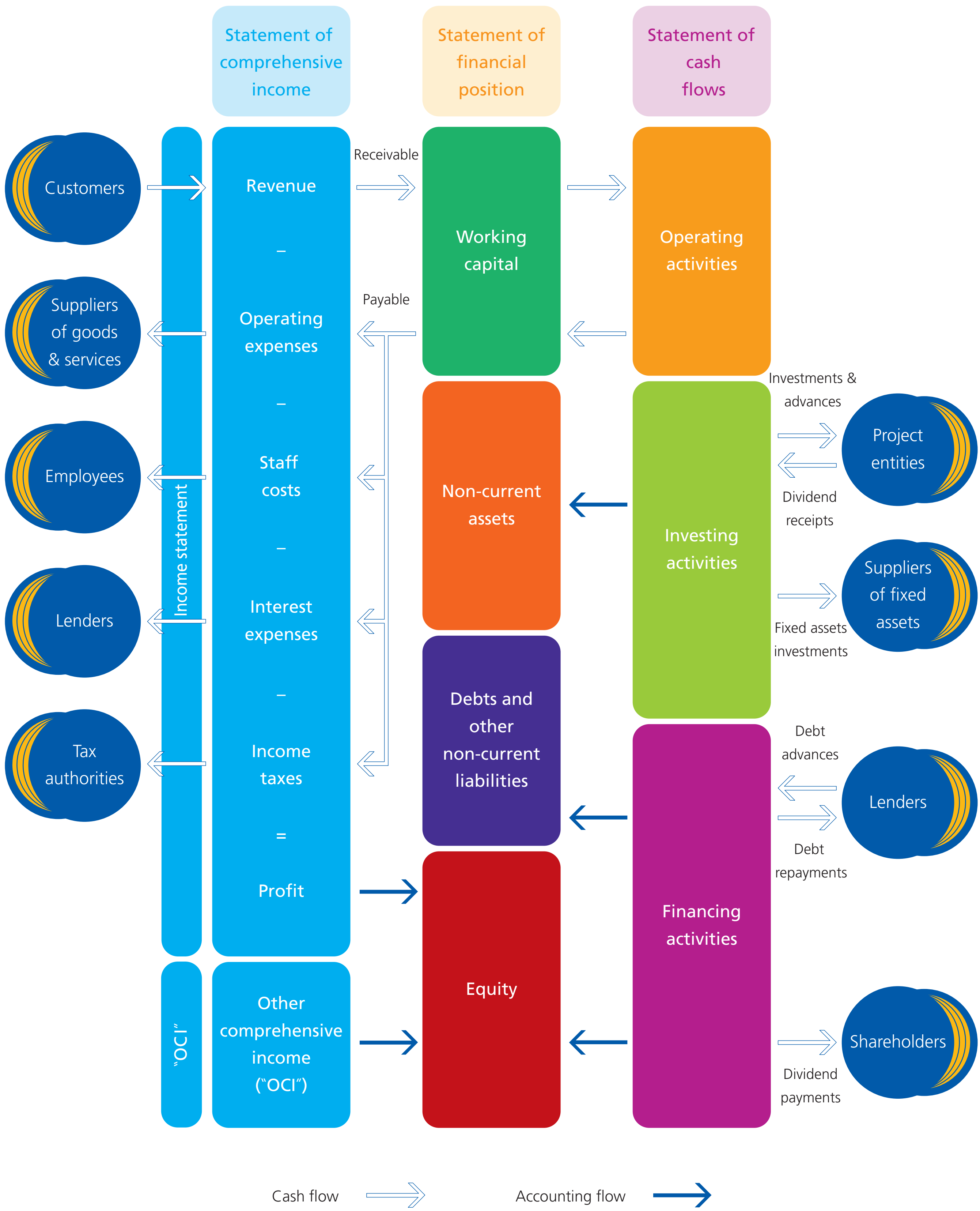
The statement of cash flows divides the cash flows into operating, investing and financing cash flows. While the operating profit underlies the operating cash flows, certain non-cash charges or credits, such as depreciation, amortisation and fair value changes on derivatives, mean the operating cash flows and the operating profit are different. Investing cash flows are the cash flows arising from the purchase or disposal of non-current assets. Financing cash flows represent the cash flows between the Group, its shareholders and lenders. Further analysis of the Group's cash flows is set out on page 74.

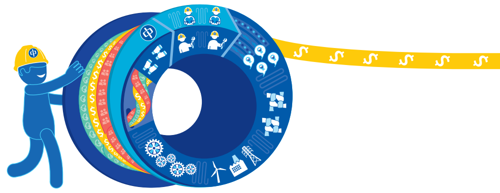
Financial Statements Illustrated

The diagram opposite illustrates the relationships between the statement of comprehensive income, the statement of financial position, the statement of cash flows, as well as their links with the Group's stakeholders.

On the one hand, the Group earns revenue from customers through the deployment of non-current assets and working capital. On the other hand, it pays operating expenses to suppliers of goods and services, incurs staff costs and also invests in additional non-current assets. The net balance of revenue, operating expenses and staff costs is the operating profit. After deducting income taxes charged by tax authorities, this profit is available for payment to lenders (interest expenses and debt repayment) and for distribution to shareholders (dividends) in return for their contribution of funds to the Group in the form of debt and equity. Moreover, the Group also makes investments and advances to its project entities and receives dividend income from them in return.

Financial Statements – An Illustration





CLP Group's Financial Results and Position at a Glance

Financial statements are the scorecard of a business and the window on a company's operations. The Group's strategy drives investment decisions and business performance, which then translate into a set of numbers in the financial statements. This summary shows how we delivered economic value in 2009:

Diversified Electricity Business

CLP invests in energy businesses in Hong Kong, the Chinese mainland, Australia, India and Southeast Asia and Taiwan. It has a diversified portfolio of power generation from gas, coal, renewables and nuclear in the Asia-Pacific region.

- Revenue mainly came from operations in Hong Kong and Australia. This fell by 6.7%[1]. While Hong Kong revenue dropped by 6.3% because of a 10% net basic tariff reduction on 1 October 2008, our Australian revenue (excluding exchange effect) improved by 5.6% because of the increase in retail tariffs for both electricity and gas and favourable sales volumes. Hong Kong basic tariff has subsequently increased by HK¢2.6 per unit starting from 1 January 2010;
- Group earnings reduced by 21.4%[2] mainly due to reduced earnings from the electricity business in Hong Kong (-21.0%)[3] as a result of a lower permitted return under the new SoC from 13.5% – 15% to 9.99%, partly offset by better earnings from other investments / operations (+17.3%)[4]. All the other four regions showed improvements in performance in 2009;
- Major one-off items[5] included impairment provisions for the Group's 20% interest in Solar Systems (HK$346 million) and investment in OneEnergy (HK$131 million), as well as a disposal gain for Power Generation Services Company Limited (PGS) in Thailand (HK$153 million);
- The closing rate of Australian dollar used to translate the Australia business assets and liabilities was 29.9% higher (2008: 21.8% lower). This accounted for the major movements in other comprehensive income in 2008 and 2009[6], and part of the increases in fixed assets, goodwill and borrowings at this year end. However, in 2009, the average exchange rates for Australian dollar and Indian rupee were 6.8% and 10.6% lower respectively as compared to 2008, which reduced the reported earnings of the Australia and India businesses after translation into Hong Kong dollar.

Prudent Financial Management

Accounting profit is not the same as cash flow (for example because the accounting profit includes non-cash items such as depreciation). The fact that we make an accounting profit does not by itself mean that we have actual cash to meet our needs. We must manage our cash carefully and strike the right balance between these competing needs:

- Dividend payments to our shareholders: we kept the same amount of dividends per share (HK$2.48 per share[7]) as last year despite lower earnings;
- Maintaining a strong credit rating and a healthy gearing ratio: CLP Holdings maintained a long-term rating of A- by Standard & Poor's and A2 by Moody's. Net debt to total capital ratio of 30.7% at 2009 year end compares favourably with other benchmark companies;
- Financing investments and capital expenditure: this is done primarily through strong and stable operating cash inflow[8] and prudent borrowings at Group[9] and project levels (please refer to page 73 for the detailed breakdown of debts).

Financial Risk Management

Managing interest rate, foreign currency and energy price risks: we arranged financial instruments to hedge our exposures on interest rate, foreign currency and energy price risks. This resulted in derivative financial instruments assets[10] and liabilities[11]. That means, if these contracts were closed out at 31 December 2009, we would receive a net amount of HK$1,641 million (the breakdown by instruments can be found on page 70).

Investment in Electricity Infrastructure and Renewables

- Continuous investment in electricity infrastructure to serve increased demand as well as to enhance supply reliability and availability: we acquired HK$9.6 billion fixed assets;
- Reduction in carbon intensity of generating portfolio: we invested HK$2.8 billion in renewable energy projects in 2009.

Last Year's Consolidated Statement of Financial Position

	HK$M
Assets	
Fixed assets, leasehold land and land use rights	89,123
Goodwill and other intangible assets	6,324
Interests in jointly controlled entities	17,791
Interests in associated companies	242
Derivative financial instruments	2,879
Trade and other receivables	8,239
Cash and cash equivalents	780
Cash restricted for specific purposes	2
Bank balances, cash and other liquid funds	782
Other assets	7,451
	132,831
Equity and Liabilities	
Share capital, premium & reserves	15,318
Retained profits	47,699
Shareholders' funds	63,017
Minority interests	105
Derivative financial instruments	2,035
Trade and other payables	5,919
Borrowings	26,696
Obligations under finance leases	21,765
SoC reserve accounts	1,826
Other liabilities	11,468
	132,831

Beyond Last Year's Statement of Financial Position*

	HK$M
Charges on assets	2,992
Contingent liabilities	1,157
Operating commitments	9,403
Capital commitments	21,960

Consolidated Statement of Comprehensive Income for Two Years

		2009 HK$M	2008 HK$M
Revenue	(1)	50,668	54,297
Expenses		(39,974)	(41,717)
Other income		153	727
Share of results of jointly controlled entities and associated companies, net of tax		2,415	2,597
Net finance costs		(3,408)	(4,121)
Income tax expense		(1,665)	(1,349)
Loss / (profit) attributable to minority interests		7	(11)
Earnings attributable to shareholders	(2)	8,196	10,423
Analysed into:			
Electricity business in HK	(3)	5,964	7,549
Other investments / operations	(4)	3,007	2,564
Unallocated net finance costs		(21)	(21)
Unallocated Group expenses		(413)	(345)
One-off items	(5)	(341)	676
Earnings attributable to shareholders		8,196	10,423
Plus:			
Other comprehensive income / (loss) attributable to shareholders	(6)	5,515	(5,233)
Total comprehensive income attributable to shareholders		13,711	5,190
Earnings per share (HK$)		3.41	4.33
Return on equity (%)		12.3	16.4

* Details can be found on page 72.

Consolidated Statement of Cash Flows for This Year

		HK$M
Operating activities		
Cash inflow from operating activities	(8)	14,529
Investing activities		
Dividends received		2,557
Investments in and advances to jointly controlled entities and associated company		(1,992)
Capital expenditure		(7,449)
Other net outflow		(472)
Financing activities		
Net increase in borrowings		9,876
Repayment of finance lease obligations		(1,516)
Interest and other finance costs paid		(3,354)
Dividends paid		(5,967)
Net increase in cash and cash equivalents		6,212
Cash and cash equivalents at 31.12.2008		780
Effect of exchange rate changes		156
Cash and cash equivalents at 31.12.2009		7,148

Consolidated Profits Retained For This Year

		HK$M
Earnings attributable to shareholders		8,196
Dividends paid for the year		
2008 final (HK$0.92 per share)		(2,214)
2009 interim (HK$1.56 per share)	(7)	(3,753)
Other movements		(7)
Net increase in retained profits		2,222
Retained profits at 31.12.2008		47,699
Retained profits at 31.12.2009		49,921
Proposed final dividend for 2009, HK$ per share	(7)	0.92

Today's Consolidated Statement of Financial Position

		HK$M
Assets		
Fixed assets, leasehold land and land use rights		98,858
Goodwill and other intangible assets		8,105
Interests in jointly controlled entities		18,838
Interests in associated companies		1,813
Derivative financial instruments	(10)	3,293
Trade and other receivables		9,018
Cash and cash equivalents		7,148
Cash restricted for specific purposes and bank deposits with maturities of more than three months		846
Bank balances, cash and other liquid funds		7,994
Other assets		8,612
		156,531
Equity and Liabilities		
Share capital, premium & reserves		20,840
Retained profits		49,921
Shareholders' funds		70,761
Minority interests		107
Derivative financial instruments	(11)	1,652
Trade and other payables		8,926
Borrowings	(9)	39,431
Obligations under finance leases		21,855
SoC reserve accounts		1,654
Other liabilities		12,145
		156,531

Beyond Today's Statement of Financial Position*

	HK$M
Charges on assets	5,314
Contingent liabilities	1,207
Operating commitments	9,811
Capital commitments	26,311

CLP Group's Financial Performance by Segments

	2009		2008		Increase / (Decrease)	
	HK$M	HK$M	HK$M	HK$M	HK$M	%
Electricity business in Hong Kong (HK)		5,964		7,549	(1,585)	(21.0)
Electricity sales to Chinese mainland from HK	74		80			
Generating facilities in Chinese mainland serving HK	748		931			
Other power projects in Chinese mainland	371		5			
Energy business in Australia	736		604			
Electricity business in India	446		320			
Power projects in Southeast Asia and Taiwan	525		116			
Other earnings	107		508			
Earnings from other investments/operations		3,007		2,564	443	17.3
Unallocated net finance costs		(21)		(21)		
Unallocated Group expenses		(413)		(345)		
Operating earnings		8,537		9,747	(1,210)	(12.4)
Other income		153		657		
Provisions for Solar Systems and OneEnergy		(477)		–		
TIPS* related contracts – MTM amortisation		(16)		(108)		
Yallourn coal mine subsidence (costs) / insurance recovery		(1)		127		
Total earnings		8,196		10,423	(2,227)	(21.4)

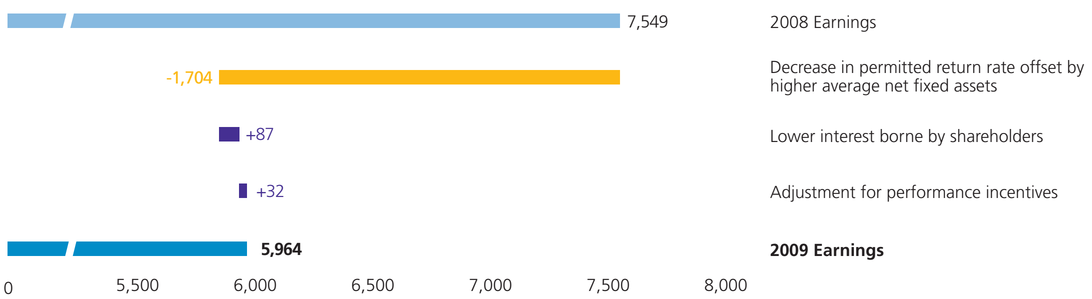
* Torrens Island Power Station (TIPS) in South Australia was sold in July 2007.

The events that shaped our financial performance in 2009 and outlook in 2010 are discussed below.

Hong Kong

The lower SoC permitted return rate explains the fall in the earnings of Hong Kong electricity business. This was partially offset by the effect of higher average net fixed assets and lower interest borne by shareholders. The SoC earnings are expected to pick up gradually due to ongoing capital investment in electricity infrastructure.

Hong Kong Earnings (HK$M)

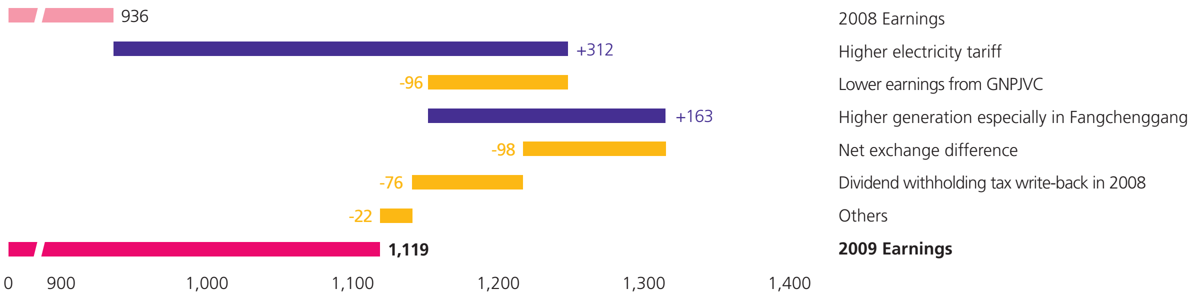


Chinese Mainland

The reduced earnings from generating facilities in Chinese mainland serving Hong Kong were mainly due to lower earnings of GNPJVC because of lower shareholders' funds and the write-back of provision of HK$76 million for dividend withholding tax in 2008. We expect these generating assets to maintain stable operations and performance.

The sharp rise in earnings from other power projects in Chinese mainland came mainly from Fangchenggang (2009: HK$238 million; 2008: loss of HK$29 million) as a result of higher generation output in the second half of 2009. Our Chinese mainland projects also benefited from the full year effect of tariff increases in July / August 2008. The performance of wind projects has improved owing to the earnings contributed by the newly acquired projects from Roaring 40s. Electricity demand and coal prices are difficult to predict and will shape the performance of our Chinese mainland assets in 2010.

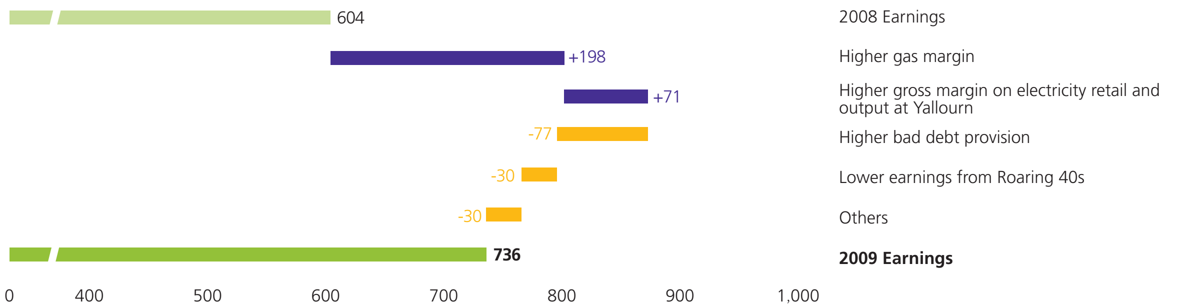
Chinese Mainland Earnings (HK$M)



Australia

Despite the lower average exchange rate of the Australian dollar (6.8%), earnings from Australia rose as a result of the increase in electricity retail and gas gross margins and higher generation output from the Yallourn power station. Despite continued improvement in financial performance, our Australia business faces uncertainty in the form of possible legislation for a Carbon Pollution Reduction Scheme (CPRS). This casts a shadow over TRUenergy's future outlook. The impairment implications of the CPRS are discussed more thoroughly on page 77 of this Financial Review. On the other hand, the fluctuations of the Australian dollar may affect the Group favourably or adversely.

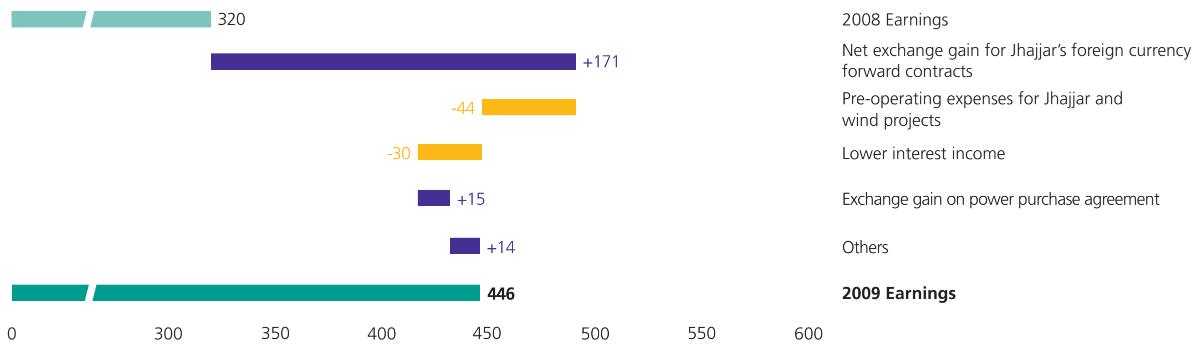
Australia Earnings (HK$M)



India

GPEC continued to operate reliably and made a steady profit contribution to the Group. Non-operating items included a net exchange gain for Jhajjar's foreign currency forward contracts, partially offset by the adverse impact of the lower average exchange rate of the Indian rupee (10.6%) and the pre-operating expenses incurred for Jhajjar and wind projects in India. The fluctuations of the Indian rupee increase the volatility of Group earnings.

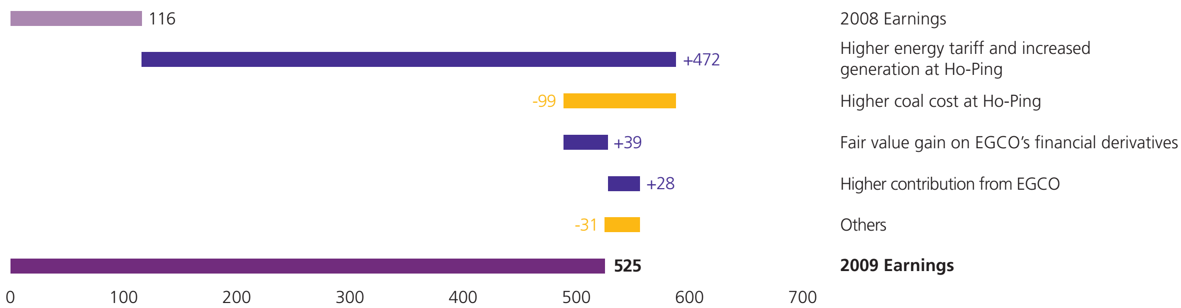
India Earnings (HK$M)



Southeast Asia and Taiwan

The higher energy tariff (reflecting Taipower's high prior year average coal cost) at Ho-Ping and increased generation revenues from EGCO's existing and new plants improved our earnings from Southeast Asia and Taiwan significantly. The effect of the high energy tariff of Ho-Ping due to the delay in adjustment will fade out in 2010.

Southeast Asia and Taiwan Earnings (HK$M)



Non-recurring Items

Other earnings in 2008 included a one-off gain from the write-back of HK$389 million (including share of CAPCO) deferred tax due to the reduction in Hong Kong profits tax rate.

Other income in 2009 represented the gain on the sale of a 60% interest in PGS, the operator of BLCP Power Station in Thailand. In 2008, other income comprised gains of HK$432 million on the sale of SEAGas and HK$225 million on the deemed disposal from the CSEC Guohua restructuring.

Provision for OneEnergy (HK$131 million) represented a provision for EGCO's carrying value in OneEnergy given the power purchase agreements of EGCO's two combined cycle power plants are nearing their ends.

Financial Analysis

Group's Financial Results

Reflecting a lower permitted return, our SoC earnings fell by 21.0%. However, our operating earnings were only down by 12.4% due to strong pick up in the Chinese mainland and Southeast Asia and Taiwan. Even though total earnings decreased by 21.4% to HK$8.2 billion, we have been able to maintain our dividends at the 2008 level.

Financial Results	*Accounting Policy*	*Notes to the Financial Statements*	2009 HK$M	2008 HK$M	Increase / (Decrease) HK$M	%
Revenue	*8*	*3*	**50,668**	54,297	(3,629)	(6.7)
Expenses			**(39,974)**	(41,717)	(1,743)	(4.2)
Other income		*5*	**153**	727	(574)	(79.0)
Finance costs	*21*	*7*	**(3,477)**	(4,245)	(768)	(18.1)
Share of results of jointly controlled entities, net of income tax	*11*	*15*	**2,675**	2,624	51	1.9
Share of results of associated companies, net of income tax	*11*	*16*	**(260)**	(27)	(233)	N/A
Income tax expense	*22*	8	**(1,665)**	(1,349)	316	23.4

Revenue and Expenses

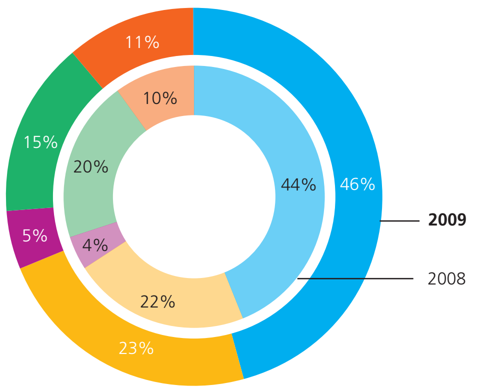
A majority of the decrease in revenue was attributed to the Hong Kong electricity business. Hong Kong electricity sales revenue decreased by 6.3% as a result of a 10% reduction in net basic tariff on 1 October 2008. Revenues from TRUenergy and GPEC were adversely affected by the lower average exchange rates of the Australian dollar (6.8%) and the Indian rupee (10.6%). Lower fuel cost and, therefore, lower recovery from the off-taker under the pass-through mechanism also decreased GPEC's revenue.

Expenses declined by HK$1.7 billion mainly attributable to the decrease in fuel cost. The use of naphtha as a lower cost substitute in the first quarter and subsequent lower gas price significantly reduced GPEC's fuel expense.

	Revenue 2009 HK$M	Revenue 2008 HK$M	Expenses 2009 HK$M	Expenses 2008 HK$M
Hong Kong	**28,484**	30,471	**(19,795)**	(19,632)
Australia	**19,166**	19,432	**(17,414)**	(17,912)
Chinese mainland	**180**	169	**(280)**	(112)
India	**2,786**	4,197	**(2,030)**	(3,669)
Southeast Asia and Taiwan	**43**	24	**(33)**	(37)
Unallocated	**9**	4	**(422)**	(355)
	50,668	54,297	**(39,974)**	(41,717)

Note: About 39% (2008: 39%) of our revenue from the retail sales of electricity and gas in Australia is paid as network charges to third party network operators.

Analysis of Expenses



Other Income

The current year's other income represented the gain on disposal of PGS in Thailand, whereas in 2008 we made gains on the disposal of SEAGas in Australia and the CSEC Guohua restructuring.

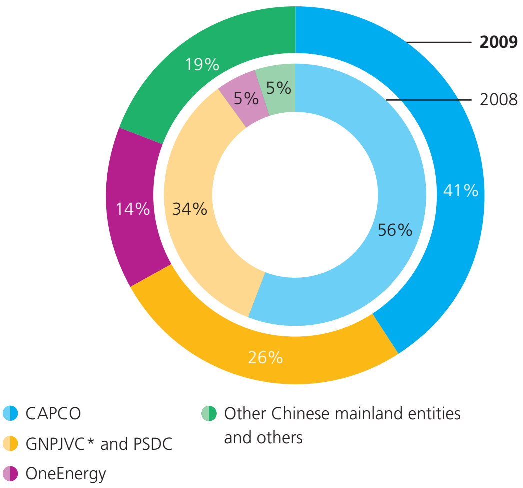
Finance Costs

Finance costs consist mostly of finance charges under finance leases as well as interest on bank loans and other borrowings. The 18.1% decrease in finance costs was mainly due to lower finance lease charges, which are linked to the permitted return, paid to CAPCO for the generation assets leased by CLP Power Hong Kong.

Share of Results of Jointly Controlled Entities, net of Income Tax

The higher energy tariff at Ho-Ping and the strong turnaround of earnings from Fangchenggang and Shandong were offset by the reduced SoC earnings from CAPCO, the provision for investment in OneEnergy (HK$131 million) and the reclassification of earnings of GNPJVC for the last quarter of 2009 to the category of associated companies (see below).

Contribution from Jointly Controlled Entities



* GNPJVC has been reclassified to associated company since September 2009

Share of Results of Associated Companies, net of Income Tax

The results included a provision for the investment in Solar Systems of HK$319 million (HK$346 million together with related tax adjustment) and the three-month earnings of GNPJVC of HK$94 million following its reclassification from jointly controlled entity to associated company.

Income Tax Expense

The increase in income tax was due to the write-back of deferred tax of HK$327 million (owing to the reduction in Hong Kong profits tax rate) and dividend withholding tax of HK$76 million in 2008, but partially offset by lower tax on lower profit at CLP Power Hong Kong in 2009.

Group's Financial Position

One of CLP's key strengths is its robust financial position. Total assets increased by 17.8% to HK$156.5 billion on the back of a healthy net debt to total capital ratio of 30.7%.

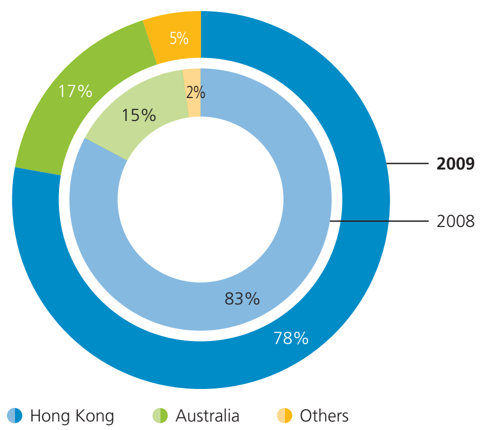
On the statement of financial position

Non-current assets	*Accounting Policy*	*Notes to the Financial Statements*	2009 HK$M	2008 HK$M	Increase HK$M	%
Fixed assets	*12*	*12(A)*	**96,604**	86,873	9,731	11.2
Leasehold land and land use rights	*12*	*12(B)*	**2,254**	2,250	4	0.2
Goodwill and other intangible assets	*13*	*13*	**8,105**	6,324	1,781	28.2
Interests in jointly controlled entities	*11*	*15*	**18,838**	17,791	1,047	5.9
Interests in associated companies	*11*	*16*	**1,813**	242	1,571	N/A
Available-for-sale investments	*16*	*19*	**1,692**	224	1,468	N/A
Deferred tax assets	*22*	*25*	**3,355**	2,992	363	12.1
Total assets			**156,531**	132,831	23,700	17.8
Net assets (total assets less total liabilities)			**70,868**	63,122	7,746	12.3

Fixed Assets, Leasehold Land and Land Use Rights

CLP seeks continuous improvement and development of our generation facilities, transmission and distribution network in our operating regions. Fixed asset additions amounted to HK$9.6 billion in 2009. These mainly related to the network upgrade in Hong Kong, together with the construction of the power plant in Jhajjar and other wind projects in India.

Fixed Assets, Leasehold Land and Land Use Rights by Geographical Location



Goodwill and Other Intangible Assets

As most of the goodwill and other intangible assets are related to our Australia business, the 28.2% increase represented approximately the 29.9% increase in the closing rate of the Australian dollar in 2009.

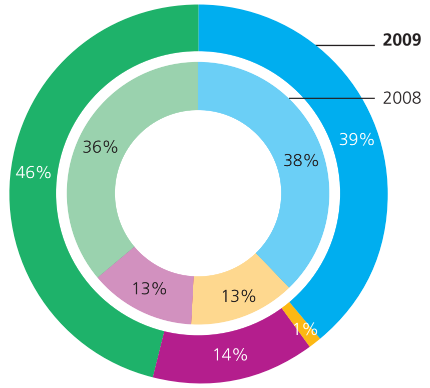
Interests in Associated Companies

The increase in our interests in associated companies was mainly due to the reclassification of GNPJVC of HK$1.8 billion from jointly controlled entity to associated company following certain amendments to the extended Joint Venture Contract, partially offset by the provision for our investment in Solar Systems.

Interests in Jointly Controlled Entities

In 2009, the Group invested HK$1.1 billion to acquire additional direct interests in several wind projects in the Chinese mainland from Roaring 40s and to complete the CSEC Guohua restructuring. An advance of HK$536 million was also made to CAPCO. These were partly offset by the reclassification of GNPJVC to associated company (see page 68).

The Group's Major Jointly Controlled Entities



CAPCO
GNPJVC* and PSDC
OneEnergy
Other Chinese mainland entities and others

* GNPJVC has been reclassified to associated company since September 2009

Available-for-sale Investments

The balance mainly represented our new investment in CGN Wind of HK$1.2 billion, whose principal activity is the investment in wind projects in the Chinese mainland. This is classified as a non-current asset as there is no intention to sell (even though, according to the relevant accounting policy, it is described as "available-for-sale").

Deferred Tax Assets

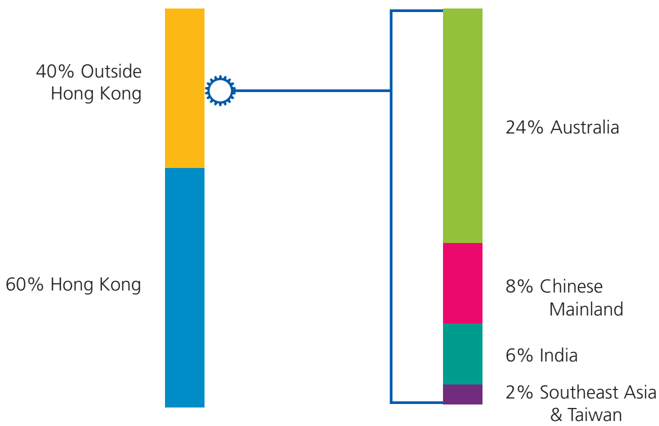
The deferred tax assets predominantly related to TRUenergy's unused tax loss at year end. Whilst HK$332 million of the tax losses were utilised against its earnings in the year, the strong appreciation of the Australian dollar at year end increased the balance.

Total Assets and Net Assets

The net assets and total assets are further analysed as follows:

Net Assets	2009 HK$M	2008 HK$M	Increase / (Decrease) %
Hong Kong	**27,376**	33,371	(18.0)
Australia	**21,032**	15,481	35.9
Chinese mainland	**10,750**	8,904	20.7
India	**5,634**	3,646	54.5
Southeast Asia and Taiwan	**2,946**	2,480	18.8
Unallocated	**3,130**	(760)	N/A
	70,868	63,122	

Total Assets by Geographical Location in 2009



Following our strategy to diversify our portfolio, 40% of total assets and 57% of net assets are now located outside Hong Kong. The decrease in net assets in Hong Kong was due to higher borrowings of CLP Power Hong Kong. The increases in net assets in Australia and India came from the higher Australian dollar and Indian rupee exchange rates at year end as well as the development of Jhajjar and other wind projects in India.

Group's Financial Position

On the statement of financial position

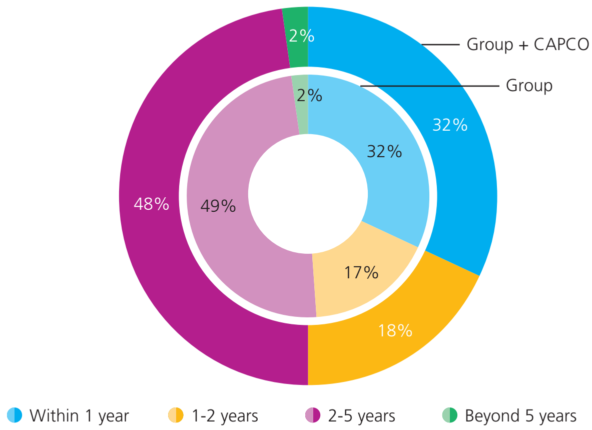
Working capital, Debts and other non-current liabilities and Equity	*Accounting Policy*	*Notes to the Financial Statements*	2009 HK$M	2008 HK$M	Increase / (Decrease) HK$M	%
Derivative financial instruments assets (current & non-current)	*15*	*18*	**3,293**	2,879	414	14.4
Derivative financial instruments liabilities (current & non-current)	*15*	*18*	**(1,652)**	(2,035)	(383)	(18.8)
Trade and other receivables	*18*	*20*	**9,018**	8,239	779	9.5
Bank balances, cash and other liquid funds	*19*	*21*	**7,994**	782	7,212	N/A
Trade and other payables	*20*	*22*	**(8,926)**	(5,919)	3,007	50.8
Bank loans and other borrowings (current & non-current)	*21*	*23*	**(39,431)**	(26,696)	12,735	47.7
Shareholders' funds			**70,761**	63,017	7,744	12.3

Derivative Financial Instruments and Hedging

Except for limited energy trading activities by TRUenergy, derivative financial instruments used by CLP are solely for hedging purposes. The type and maturity profile of the derivative financial instruments are set out below:

	Notional Amount 2009 HK$M	Notional Amount 2008 HK$M	Fair Value Gain / (Loss) 2009 HK$M	Fair Value Gain / (Loss) 2008 HK$M
CLP Group				
Forward foreign exchange contracts	**67,261**	62,127	**629**	696
Interest rate swaps / cross currency & interest rate swaps	**20,066**	15,175	**139**	(287)
Energy contracts	**12,440**	18,236	**873**	435
	99,767	95,538	**1,641**	844
CAPCO				
Forward foreign exchange contracts	**454**	1,037	**(29)**	(117)
Interest rate swaps	**1,586**	2,291	**(60)**	(92)
Total	**101,807**	98,866	**1,552**	635

Maturity Profile in 2009



Trade and Other Receivables

The increase in trade and other receivables of HK$779 million mainly came from the increase in electricity and gas sales debtors in Australia as a result of the uplift in retail prices and a higher closing exchange rate; as well as the advance payments (2009: HK$1.1 billion; 2008: HK$817 million) paid for the construction contracts of Jhajjar and other wind projects in India.

Bank Balances, Cash and Other Liquid Funds

Substantial cash and bank balances were retained at corporate level to meet the funding requirements of planned and committed investments.

Trade and Other Payables

The increase was due to the consideration payable for the investment in CGN Wind of HK$1.2 billion, increased payables for pool purchases (due to higher pool prices in New South Wales), a higher closing exchange rate in Australia and the construction payables on the Jhajjar and wind projects in India.

Bank Loans and Other Borrowings

In spite of the severe challenges in the credit market during the year, CLP was able to diversify its funding sources. For instance, CLP Power Hong Kong issued a Japanese yen bond of ¥15 billion (HK$1.2 billion) and Hong Kong dollar bonds of HK$2.8 billion under the MTN programme during the year. New bank loan facilities of HK$4.9 billion in total were also arranged by CLP Power Hong Kong. Jhajjar arranged a Rs.39 billion (HK$6.5 billion) facility in India with HK$1.2 billion drawn down at year end.

Shareholders' Funds

The translation gain from our overseas investments as a consequence of the higher exchange rates, notably from the Australian dollar, together with the earnings attributable to shareholders accounted for the 12.3% increase in shareholders' funds. We maintained a stable dividend pay-out despite the fall in earnings in 2009.

Group's Financial Position

Beyond the statement of financial position

The statement of financial position does what it says. However, there are missing bits like contingencies and commitments which are equally important if readers are to grasp the full picture of the Group's financial standing.

Charges on Assets

In order to meet their local funding needs, certain borrowings of the Group's overseas subsidiaries totalling HK$3.3 billion were charged against the respective assets of subsidiaries in India, Huaiji and Boxing of HK$5.3 billion (being 3.4% of the Group's total assets).

Contingent Liabilities

Apart from the dispute between GPEC and its off-taker over the payments of "deemed generation incentive", no material contingent liabilities were identified. The claims against GPEC amounted to HK$1.2 billion at 31 December 2009. Based on our assessment and external legal advice that GPEC is on strong grounds, no provision has been made in the financial statements. The legal proceedings are continuing. Details of the contingent liabilities are disclosed in Note 33 to the financial statements.

Operating Commitments

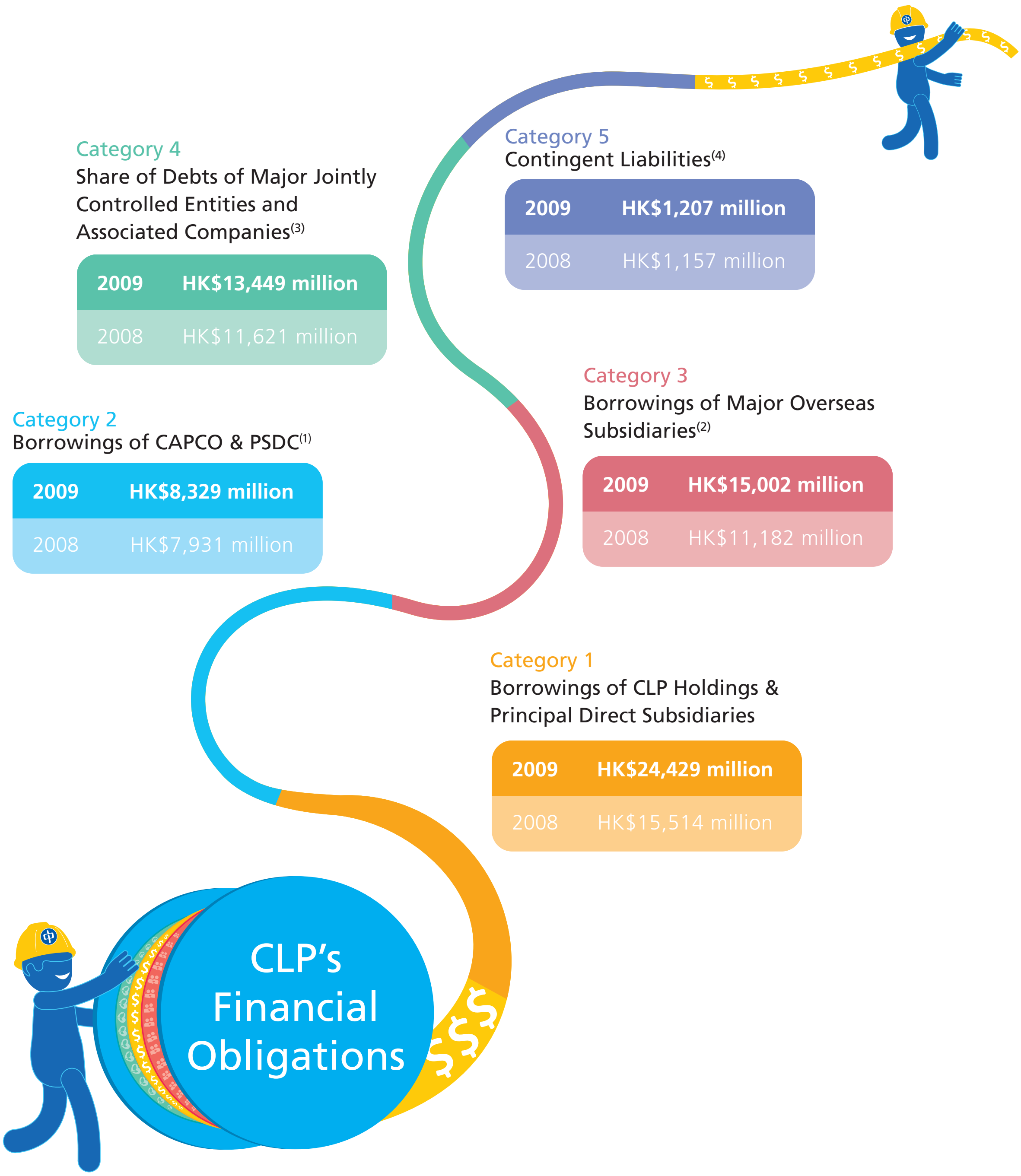
CLP Power Hong Kong's power purchase arrangement with CAPCO (accounted for as a lease) made up a substantial portion (69.4%) of the operating commitments of the Group. The balance mainly related to the right to request electricity supply under the Master Hedge Agreement between TRUenergy and Ecogen.

Capital Commitments

At 31 December 2009, the Group's capital commitments amounted to HK$26.3 billion (2008: HK$22 billion). These mostly related to the construction of Jhajjar and wind projects in India and continuous investment in the transmission and distribution network in Hong Kong.

CLP Group's Financial Obligations at a Glance

The financial risks associated with borrowings and unconsolidated financial obligations of listed companies continue to be of market concern. Our policy is to adopt a conservative approach to such matters. The purpose of the following diagram is to explain the total financial obligations of the CLP Group by classifying them into five categories according to their degree of recourse to CLP Holdings. Obligations under finance leases have not been included in the diagram.



Notes:

(1) 100% of the debts of CAPCO and PSDC. Although the Group holds only a 40% interest in CAPCO and a 49% interest in PSDC, CLP Power Hong Kong has commitments to these companies through power purchase and service agreements, as explained in the SoC Statement on pages 201 to 203 and Note 32 to the financial statements.

(2) These debts are non-recourse to CLP Holdings.

(3) These debts are non-recourse to CLP Holdings or its subsidiaries. The share of debts is calculated by reference to the Group's shareholdings in the relevant jointly controlled entities and associated companies.

(4) Details of the contingent liabilities of CLP Holdings and its subsidiaries are set out in Note 33 to the financial statements.

Cash Flows

CLP Power Hong Kong's strong and stable operating cash flows continue to power the Group's liquidity. At the same time, we ensure that appropriate funds can be arranged from the financial markets to meet our investment and operation needs. Excluding exchange effects, cash and cash equivalents increased by HK$6,212 million to HK$7,148 million in 2009. A summarised analysis of our cash flows along with a reconciliation between operating profit and operating cash flows is set out below.

	2009 HK$M	2008 HK$M	Increase / (Decrease) HK$M	%
Operating activities	14,529	15,238	(709)	(4.7)
Investing activities	(7,356)	(5,153)	(2,203)	(42.8)
Financing activities	(961)	(11,326)	10,365	91.5
	6,212	(1,241)	7,453	

Operating Activities

Despite a lower operating profit in the current year, our operating cash inflows remain strong and only decreased by 4.7% to HK$14.5 billion.

Investing Activities

The capital expenditure in Hong Kong and India as well as investments in and advances to jointly controlled entities and associated company accounted for substantial investment cash outflows for the year.

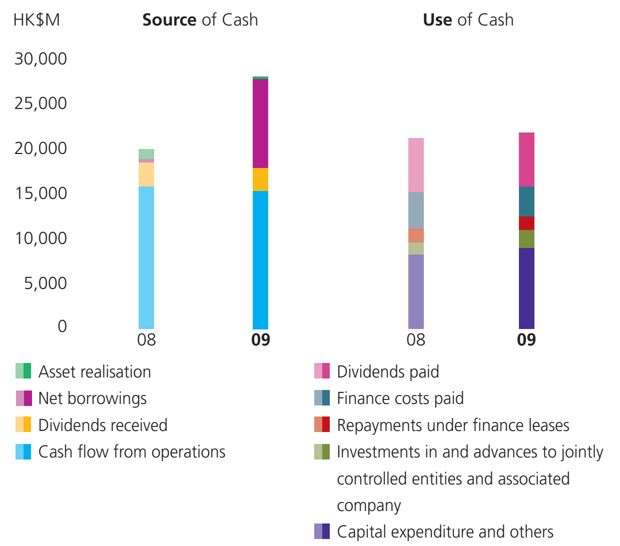
Financing Activities

Key financing cash flows included net additional borrowings (HK$9.9 billion), payments of interest to lenders (HK$3.4 billion) and dividends to our shareholders (HK$6 billion).

From "Operating Profit" to "Cash from Operating Activities"

	HK$M
Operating profit	10,847
Depreciation and amortisation	4,332
Impairment charge	299
Net loss on asset realisation	19
SoC items	893
Changes in working capital	(944)
Others	(917)
Net cash inflow from operating activities	**14,529**

Cash Utilisation



Accounting Mini-series

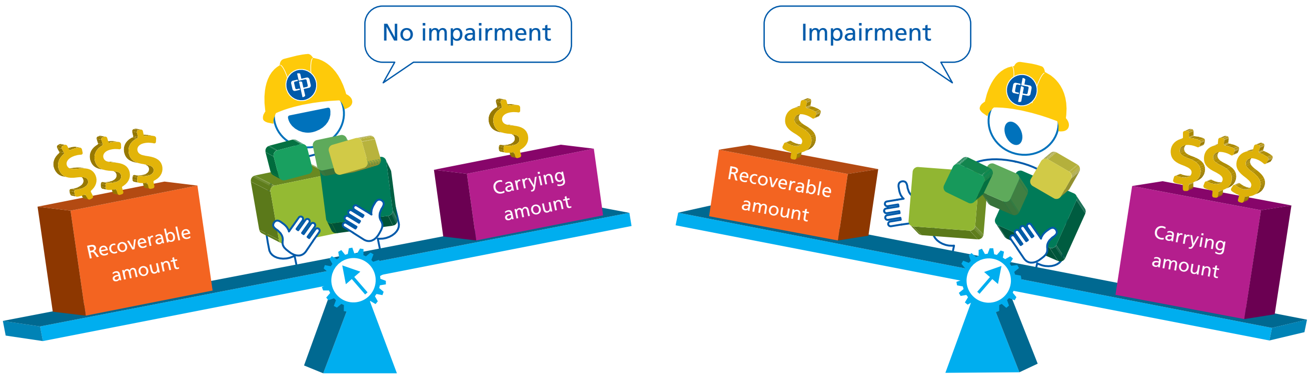
In our "Accounting Mini-series" in recent Annual Reports, each year we have explained a topical and difficult accounting concept which can help you understand our accounts. This year we talk about impairment – even though, and as you will see, this is not a topic we want to see feature too often in CLP's accounts.

Why talk about impairment?

CLP has steadily expanded its business activities beyond its original Hong Kong base since the mid-1990s. We adopt a disciplined investment approach with well-defined investment criteria for project selection. However, no matter how careful we are in making investment decisions, the regulatory, economic and business environments are sometimes beyond our control and the value of our investments can be affected. An impairment alarm rings when the return falls below our original expectation. After going through the financial crisis, we are particularly alert to any changes to our operating environment which might trigger an impairment review. We believe it is time to explain the mechanism of impairment assessment to our readers.

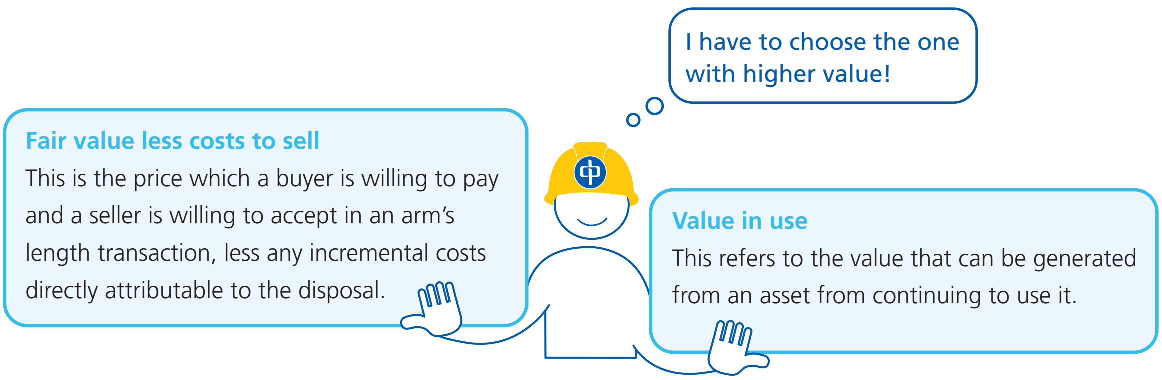
When does impairment occur?

The deterioration of market conditions, imposition of new regulations, technological advances and other significant changes are impairment indicators which may have a drastic impact on our operating environment and lead to an unexpected decrease in investment returns. Whenever a fall in returns is foreseen, we have to check whether an impairment loss has arisen. An impairment review assesses whether the benefits to be derived from an asset in the future (the recoverable amount) still exceed its current value in our financial statements (the carrying amount).



How to assess impairment?

The critical element in impairment assessment is the recoverable amount of an asset. The recoverable amount is the benefit to be derived from an asset, either by future use (i.e. value in use) or by disposal (i.e. fair value less costs to sell) of the asset, whichever is higher.



It is reasonably easy to determine the fair value less costs to sell by comparing this with current market transactions. However, in practice, an active market or reliable market information may not exist for all assets. When the market is illiquid or comparable transactions are few, especially for specific assets such as a power plant, it may not be possible to determine the fair value of the asset. We then have no choice, but to assess the recoverable amount of the asset by estimating its value in use.

How to assess the recoverable amount of a power company owning several power stations?

If each power station operates and generates cash inflows from electricity sales independently within a power company, we assess the recoverable amount of each power station individually when conducting impairment assessment. We do not assess impairment based on the power company as a whole, because each power station is considered as the smallest identifiable group of assets that can generate cash inflows independently from other assets of the company. In other words, each power station is regarded as a cash generating unit (CGU), the smallest unit on which a recoverable amount should be assessed.

How to calculate value in use?

The value in use of an asset is the present value of a series of future cash flows expected to be generated from using the asset. This is derived from the concept of discounted cash flows (the amount you would pay today for cash expected to be received in future years). The calculation of value in use of an asset seems complicated. It will be easier to understand if we divide the present value of cash flows into two basic elements: the cash flow projections and the discount rate.

Cash flow projections

Cash flow projections include cash inflows from continuing use of an asset over its expected useful life, as well as those expected to be received on disposal of the asset at the end of its useful life. In determining future cash flows, significant management judgment is involved. Management predict the future cash flows by estimating a range of economic conditions that will exist over the remaining useful life of an asset. This prediction is based on the current condition of the asset. Future expenditure on improving and enhancing the performance of the asset is excluded.

What is a discount rate?

Discount rate is the rate of return that an investor would require when he invests in a risk portfolio. The higher the risk, the higher the discount rate.

To illustrate the concept of present value, let us go through a very simple example.

Carrying amount of an asset
= HK$50 million

Annually expected cash inflows
= HK$20 million

Useful life of the asset
= 4 years

Disposal value at the end of the 4th year
= HK$5 million

Discount rate
= 10%

Present	Year 1	Year 2	Year 3	Year 4 (end of useful life)

$$\text{HK\$66.8M} = \frac{\text{HK\$20M}}{(1+10\%)^1} + \frac{\text{HK\$20M}}{(1+10\%)^2} + \frac{\text{HK\$20M}}{(1+10\%)^3} + \frac{\text{HK\$(20+5)M}}{(1+10\%)^4}$$

(HK$18.2M) (HK$16.5M) (HK$15M) (HK$17.1M)

By discounting the annual cash inflows, the present value of the asset (i.e., its value in use) is estimated to be HK$66.8 million. As this is higher than its carrying amount of HK$50 million, the asset is not impaired.

Note : The present value of the cash inflows is far less than HK$85 million (the straight summation of 4 years cash inflows of HK$20 million per year and the disposal value of HK$5 million) because it takes into account the compensation for not receiving the cash immediately and the risk that the projected cash inflows may not ultimately materialise.

What is on our radar screen?

As highlighted in the Critical Accounting Estimates and Judgments on pages 153 and 154, the Australian Government has proposed to implement a CPRS which requires carbon dioxide emitters to surrender a permit for every tonne of CO_2 that they emit. If such new legislation is imposed, it will impact our Yallourn Power Station. Assuming that the CPRS, in its current form, were passed, an impairment review of Yallourn Power Station would be performed as follows:

Yallourn Power Station is a brown coal-fired power station. It has a generation capacity of approximately 10,500GWh. It supplies approximately 22% of Victoria's electricity needs and 8% nationally in Australia. The carrying amount of Yallourn is HK$11,592 million as of 31 December 2009.

What is the impairment indicator?

The imposition of the new legislation, the CPRS.

Is Yallourn a CGU?

Yes, Yallourn has been operated and managed as a standalone asset. It is one of several CGUs of TRUenergy.

Can fair value of Yallourn be determined?

No. Because power plant is a specific asset with no active market.

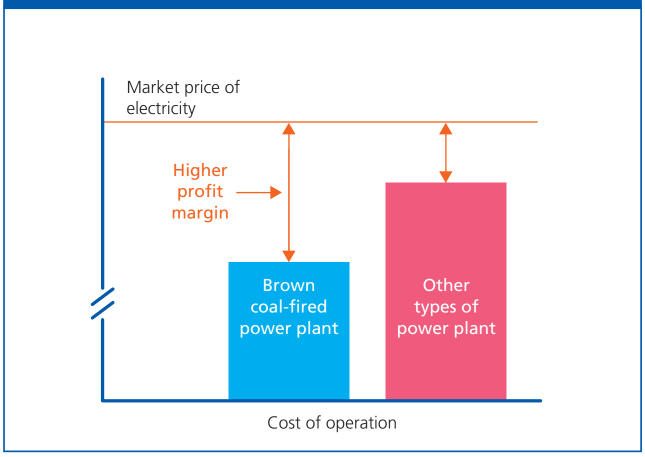
What is the impact on Yallourn's assets?

The value in use of Yallourn will primarily be driven by its short run marginal costs and how these position it in the merit order of the wholesale electricity market (i.e., how competitive it is in the market against other generators).

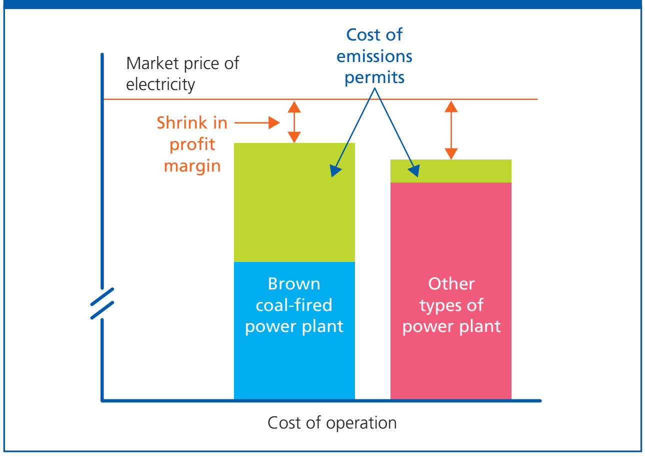
Currently, the key short run marginal cost of Yallourn is its fuel cost. However, given the relative low cost of its mine-mouth brown coal fuel source, Yallourn's dispatch is heavily embedded in the merit order of the wholesale electricity market in Australia. Any change to Yallourn's short run marginal cost, such as the cost of carbon emissions contemplated by the CPRS, will significantly change its position in the merit order and hence its longer term operating profile and profit margins.

These changes will determine the cash flows used in the value in use calculations, with any detrimental changes to the margins and operating life of Yallourn having the potential to cause an impairment of this asset.

Before CPRS



After CPRS



A hard lesson learned?

Even though making impairment provision is a painful decision, this reminds us to be cautious when making investment decisions. Our duty to make impairment assessments helps keep us alert to any changes in the market conditions so that we react to those changes promptly.

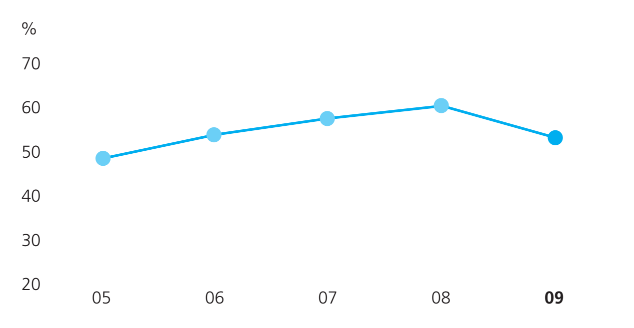
A Broader Perspective

Financial ratio analysis is a powerful tool to understand financial statements. There are many kinds of financial ratios used to interpret the financial performance and position of a company. Each ratio has its specific purpose and is derived from a specific formula. Here, we look at the financial ratios of the Group from three different perspectives: Performance, Financial Health and Investors' Return.

Performance Indicators

The performance indicators tell you how well a company is performing. Because the electricity business is highly capital intensive, the fixed assets turnover ratio provides an overview on how efficiently a company is generating sales from using its fixed assets. Another performance indicator we show below is the return on equity, which demonstrates how effectively a company is investing its shareholders' funds.

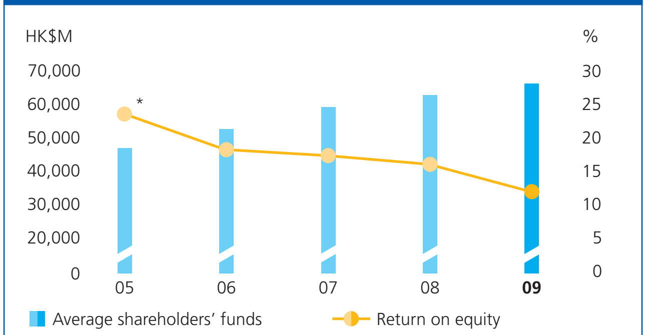
Fixed Assets Turnover Ratio



$$\text{Fixed Assets Turnover Ratio} = \frac{\text{Total Sales}}{\text{Average Fixed Assets}}$$

As a power company, the ability to generate revenue links closely with the quantity and quality of fixed assets owned/operated by the Group. In particular, our SoC business in Hong Kong is strongly asset-based. Despite large capital expenditure in Hong Kong and overseas during the past five years, our fixed assets turnover ratio is around 50% or higher. This demonstrates sensible capital expenditure planning and efficient use of our fixed assets.

Return on Equity



* Included the one-off tax consolidation benefit from Australia of HK$2 billion

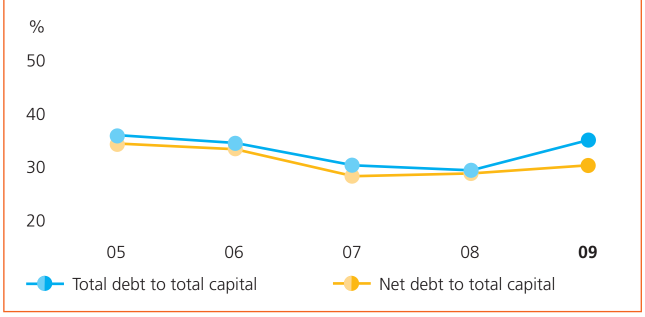
$$\text{Return on Equity} = \frac{\text{Earnings}}{\text{Average Shareholders' Funds}}$$

The build-up of translation reserves (which are not included in earnings) from our overseas operations, especially Australia and India, has adversely affected the return on equity in the past years. This effect is exacerbated by the lower SoC permitted return in the current year. Nevertheless, the average return of 17% (excluding the 2005 one-off Australian tax consolidation benefit of HK$2 billion) is still satisfactory compared with the current low interest (return) environment.

Financial Health Indicators

These indicators help readers to assess a company's financial health. The gearing ratios (total debt to total capital and net debt to total capital) demonstrate the degree to which a company's activities are funded by shareholders' funds as opposed to creditors' funds. A greater proportion of equity provides a cushion and is less vulnerable to an economic downturn. However, an extremely low gearing may imply financial inefficiency. The interest cover ratio demonstrates how comfortably a company's interest obligations are served by the profit it generates.

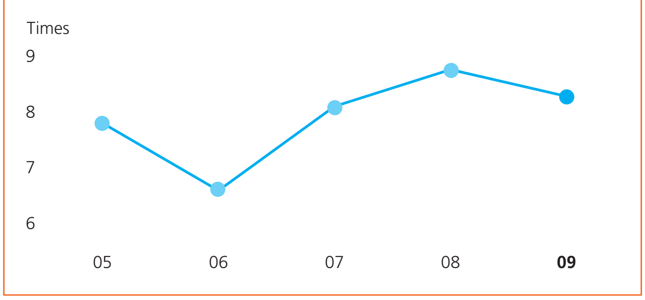
Gearing



$$\text{Total / Net Debt to Total Capital Ratio} = \frac{\text{Total / Net Debt}}{\text{Total Capital}}$$

We use debt to finance the Group's expansion and development in accordance with prudent financial management policy. During the past five years, the total debt to total capital ratio remained stable between 29% and 37%, whilst the net debt to total capital ratio was at a comparable level of 28% to 35%.

Interest Cover Ratio



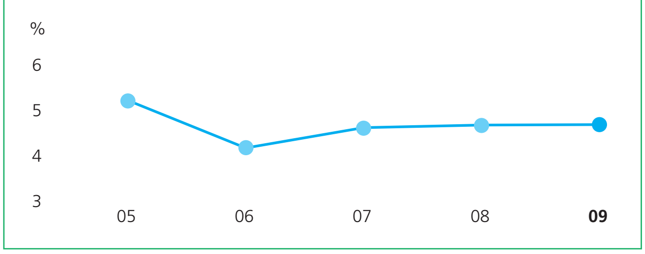
$$\text{Interest Cover Ratio} = \frac{\text{Profit before Income Tax and Interest}}{\text{Interest Charges + Capitalised Interest}}$$

As a key obligation to our lenders, we manage our interest cover carefully to ensure that interest payments are well served by our operating profit. Alongside the recent low interest rate trend, our interest cover ratio remains high. The average interest cover for the past five years is 8 times.

Investors' Return Indicators

Many of our shareholders look for dividends as part of their total return from their shareholdings in CLP. The following two indicators show the relationship between dividends received by shareholders and the value of their shares in the market (dividend yield) and the proportion of our earnings which is delivered to our shareholders as dividends (dividend pay-out).

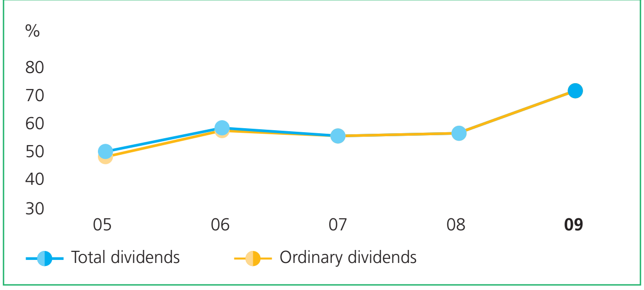
Dividend Yield



$$\text{Dividend Yield} = \frac{\text{Dividends per Share}}{\text{Closing Share Price}}$$

Despite the significant fluctuations in the Hong Kong stock market, CLP's stock price remains relatively stable. In order to provide our shareholders with a steady return, we decided to maintain the 2009 dividends at 2008 level. The average annual dividend yield over the past five years has been 4.7%.

Dividend Pay-out



$$\text{Dividend Pay-out} = \frac{\text{Dividends per Share}}{\text{Earnings per Share}}$$

Dividend payout has increased over the past five years as we preserve a stable dividend policy against economic downturn and other negative factors such as the reduction in SoC return. Our stable dividend policy is backed by a resilient financial position and improving earning prospects.